



1997

ANNUAL REPORT

Corporate Profile

ILI Technologies Group Corp. ("ILX") specializes in high-tech products for asset management. ILX has extensive experience in asset management technologies and has developed its own products internally. The Company markets its products both locally and internationally.

ILX was listed as a Junior Capital Pool company on the Alberta Stock Exchange on December 31, 1997 under the name C.G.S. Technology Inc. On January 26, 1998 the Corporation's shareholders voted unanimously to approve the acquisition of ILI Technologies Corp., a privately-owned company, with the Alberta Stock Exchange granting final approval to this acquisition as the Corporation's Major Transaction on April 26, 1998. Upon completing its major transaction, the Corporation changed its name from C.G.S. Technology Inc. to ILI Technologies Group Inc.

Our Mission

"Our mission is to build a dynamic company which delivers innovative and practical high technology solutions to our customers and yields our shareholders the maximum rate of return."

President's Message

To the shareholders of ILI Technologies Group Inc. (formerly C.G.S. Technology Inc.)

It is with great pleasure that I present the first annual report for ILI Technologies Group Inc. since the Company became publicly traded on the Alberta Stock Exchange. Although this document presents the Company's financial report for the years ending December 31, 1997 and 1996, it also includes information to bring you up to date on our activities since year-end 1997.

The Company's first six months of operations as a Junior Capital Pool company were very successful.

During the year, the Company completed its public issuance of 3,000,000 common shares for proceeds of \$231,907. When added to the \$200,000 already on hand prior to the public offering, this gave a total initial capitalization of \$431,907.

In June, 1997, the Company agreed to acquire all the shares of ILI Technologies Corp. ("ILI") to complete its major transaction.

Our goal was to acquire a high-tech company with commercially feasible products that have significant growth potential for our Company. Rigorous financial and market analysis was performed by the Company to determine the feasibility and market potential of ILI's products.

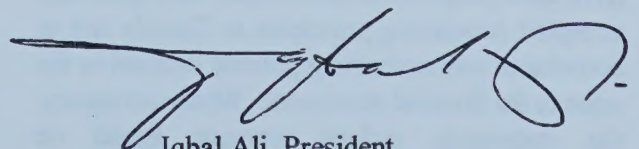
The acquisition of ILI was unanimously approved at our Annual General Meeting and Special Meeting held January 26, 1998, where the votes present represented over 67% of our shareholders.

We are very excited about the products and markets for ILI. ILI began marketing its products in 1997 and these products are now found in countries throughout the world.

In addition, subsequent to December 31, 1997 the Company initiated a private placement to issue an additional 1,200,000 units, with each unit consisting of one common share and one share purchase warrant. The proposed offering would result in the issuance of a maximum of 2,400,000 common shares for a maximum of \$720,000 if all units were sold and all warrants exercised. The funds will be used as further working capital to fund the operations of the Company.

The 1997 financial statements reflect a net loss of \$.013 per share. The completion of our major transaction with ILI Technologies Corp. and increasing demand for our products should result in an exciting year. In addition, the Company is currently reviewing other potential acquisition candidates to further expand our market potential.

Management wishes to express its thanks to our Shareholders for their continued support and encouragement. Our Board of Directors and employees also deserve sincere thanks for their perseverance and hard work in order to position ILI Technologies Group Corp. for strong future growth.



Iqbal Ali, President
April 30, 1998

Management Discussion And Analysis

REVENUES

The Company did not generate any revenue from operations during the period ending December 31, 1997. The Company invested in a short term investment resulting in \$2,060 of interest income.

ADMINISTRATIVE EXPENSES

Administrative expenses for the period were \$77,962 comprised mainly of management fees and office costs associated with the public offering and evaluation of business acquisitions.

It is anticipated that these associated general and administration costs will be reduced for the upcoming year.

INCOME TAXES

The Company has approximately \$89,550 of non-capital loss carryforwards which may be carried forward to offset taxable income until the year 2004.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1997 the Company had working capital of \$332,865 and no long term debt. The acquisition of ILI Technologies Corp. will be a share for share exchange and will not require any cash consideration.

As at the date of this Annual Report, the Company is seeking additional working capital through a private placement described in an Offering Memorandum dated March 13, 1998 and filed with the Alberta Securities Commission. If the private placement offering of up to 1,200,000 units is fully subscribed, the combined working capital of the Company and ILI Technologies Corp. is projected to be in excess of \$750,000. This combined working capital is expected to be adequate for the successful execution of the ILI Technologies Corp. business plan.

Management Report

Management is responsible for the integrity and objectivity of the information included in this Annual Report and for the consistency between the financial statements and operating data contained elsewhere in the report. These financial statements have been prepared in accordance with generally accepted accounting principles in Canada and in accordance with accounting policies detailed in the notes to the financial statements. Where necessary, the statements include amounts based on management's informed judgements and estimates.

Management maintains a system of internal

controls to provide reasonable assurance that all of the Company's assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

Schultz Leong, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee includes a majority of independent directors who are not officers or employees of the Company. The Committee reviews the financial content of the Annual Report and reports its findings to the Board of Directors for its consideration in approving the financial statements.

YEAR 2000 COMPLIANCE

Vulnerability to Year 2000

The majority of ILI Technologies Corp. software products run in the Microsoft Windows environment. ILI has close integration with its customers and vendors, and this allows the Y2K issue to be addressed in a timely fashion. The majority of ILI's software products rely on the Paradox Database Engine, which has been updated to function correctly for the period of January 1, 9999 BC to December 31, 9999 AD (ref: <http://www.inprise.com/firehose/05-27-96.html>).

ILI has written a number of programs using the CodeBase database engine for Visual C++. These programs use explicit code to handle the Y2K problem. The code detects dates from 2000 on and performs the appropriate calculations to correctly handle the new millenium.

Hardware-based systems (i.e. *Pressure Trax* units) developed by ILI are sensitive to the 1999 to 2000 transition. That is, if the system is turned on and does not record data during the transition between 1999 and 2000, it will fail to function correctly and will not start to record data at that time. However, the device will function correctly once stopped and restarted. Since these devices are generally used for relatively short periods of time before being stopped and restarted, the transition problem will be more of a nuisance than a concern. No data will

be lost or damaged. All customers affected by this problem are being notified via ILI's web site. A solution to the problem will likely be introduced prior to the Y2K transition and will be integrated into new systems and as upgrades of existing systems.

Assumption of Third Party Responsibility in Integrated Systems

ILI Technologies Corp. continues to contact key vendors that provide embedded components used in the ILI products. There is an assumption of recursive vulnerability to the Y2K problem. This means that a vendor which ILI relies on also relies on a third party which, by assumption has performed due diligence when addressing the Y2K problem. ILI has contacted all key vendors regarding the Y2K stability of their products. Key components used by ILI are researched back to the source to ensure Y2K product stability.

Assumption of Customer Responsibility for Client Platforms Used with ILI Products

Many of the ILI software products run on its customers' machines which ILI did not provide nor maintain. ILI assumes no responsibility for such systems, or problems caused by the lack of stability introduced to ILI products. It is assumed that vendors will provide a Y2K friendly environment in which the ILI products will operate. It is not considered ILI's responsibility to inform the customer of Y2K discrepancies inherent in the customer's systems, regardless of whether ILI's software/hardware is being used or affected by said system. ILI will make every reasonable effort to solve customer Y2K problems that are affecting ILI products. But, this will only be performed as a "good-will" measure with no legal or assumed responsibility for customer system Y2K stability or otherwise.

AUDITORS' REPORT

To the Shareholders of ILI Technologies Group Inc. (formerly C.G.S. Technology Inc.):

We have examined the balance sheet of ILI Technologies Group Inc. (formerly C.G.S. Technology Inc.) as at December 31, 1997 and 1996 and the statements of loss and accumulated deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta

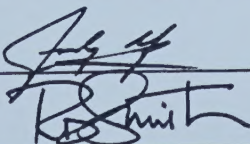
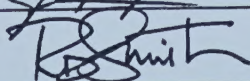
March 4, 1998, except as to Notes 1, 3, 5 and 6
which are as of May 15, 1998

SCHULTZ LEONG
Chartered Accountants

ILI TECHNOLOGIES GROUP INC.
(Formerly C.G.S. Technology Inc.)
BALANCE SHEET
DECEMBER 31, 1997

	<u>1997</u>	<u>1996</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 346,030	\$ 189,234
Goods and Services Tax recoverable	<u>9,349</u>	<u>---</u>
	355,379	189,234
 PREPAID EXPENSES OF MAJOR TRANSACTION (Notes 5 and 6)	 23,019	 ---
 PREPAID EXPENSES OF PUBLIC ISSUANCE OF SECURITIES	 <u>---</u>	 <u>10,675</u>
	 <u>\$ 378,398</u>	 <u>\$ 199,909</u>
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 5)	\$ <u>22,484</u>	\$ <u>---</u>
 SHAREHOLDERS' EQUITY (DEFICIT)		
 SHARE CAPITAL (Notes 3, 5, and 6)	 431,907	 200,000
 ACCUMULATED DEFICIT	 <u>(75,993)</u>	 <u>(91)</u>
	<u>355,914</u>	<u>199,909</u>
	 <u>\$ 378,398</u>	 <u>\$ 199,909</u>

APPROVED BY THE BOARD:

 _____	Director
 _____	Director

ILI TECHNOLOGIES GROUP INC.
(Formerly C.G.S. Technology Inc.)
STATEMENT OF LOSS AND ACCUMULATED DEFICIT

	Year Ended December <u>31, 1997</u>	Period From October 21, 1996 to December <u>31, 1996</u>
INTEREST INCOME	\$ <u>2,060</u>	\$ <u>---</u>
EXPENSES		
Management fees (Note 5)	30,400	---
Office and administrative services (Note 5)	22,814	---
Premises rental (Note 5)	17,400	---
Consulting fees and wages (Note 5)	3,375	---
Travel and promotion	2,231	
Professional fees	1,651	
Bank charges	<u>91</u>	<u>91</u>
	<u>77,962</u>	<u>91</u>
EARNINGS (LOSS) FOR THE PERIOD	(75,902)	(91)
Accumulated deficit, beginning of period	<u>(91)</u>	<u>---</u>
ACCUMULATED DEFICIT, END OF PERIOD	\$ <u>(75,993)</u>	\$ <u>(91)</u>
 BASIC AND FULLY DILUTED LOSS PER SHARE	 \$ <u>(0.013)</u>	 \$ <u>(0.000)</u>

ILI TECHNOLOGIES GROUP INC.
(Formerly C.G.S. Technology Inc.)
STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December <u>31, 1997</u>	Period From October 21, 1996 to December <u>31, 1996</u>
CASH WAS PROVIDED (USED) BY:		
OPERATING ACTIVITIES		
Loss for the period	\$ (75,902)	\$ (91)
Goods and Services Tax recoverable	(9,349)	---
Accounts payable	<u>22,484</u>	<u>---</u>
	<u>(62,767)</u>	<u>(91)</u>
FINANCING ACTIVITIES		
Issuance of share capital, net of related costs	231,907	200,000
Prepaid expenses of major transaction	(23,019)	---
Prepaid expenses of public issuance of securities	<u>10,675</u>	<u>(10,675)</u>
	<u>219,563</u>	<u>189,325</u>
INCREASE IN CASH IN THE PERIOD	156,796	189,234
Cash, beginning of period	<u>189,234</u>	<u>---</u>
CASH, END OF PERIOD	\$ <u>346,030</u>	\$ <u>189,234</u>

ILI TECHNOLOGIES GROUP INC.
(Formerly C.G.S. Technology Inc.)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

1. OPERATIONS OF THE COMPANY

The company is a junior capital pool company listed on the Alberta Stock Exchange. Until the company completes a Major Transaction, as the Alberta Securities Commission defines that term, the activities and transactions into which the company may enter are restricted by the policies and regulations of the Commission. As detailed in Note 6, subsequent to December 31, 1997 the company completed its Major Transaction and changed its name to ILI Technologies Group Inc.

2. SIGNIFICANT ACCOUNTING POLICY

The company's financial instruments consist of cash, Goods and Services Tax recoverable and accounts payable. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of the financial instruments approximate their carrying value.

3. SHARE CAPITAL

(a) Shares Authorized

- Unlimited common shares
- Unlimited preferred shares, issuable in series on such terms and conditions as may be set by the Board of Directors prior to issuance

(b) Shares Issued

	<u>Number Issued</u>	<u>Consideration</u>
Common shares		
Balance, December 31, 1996	4,000,000	\$ 200,000
Public issuance of common shares, June, 1997	3,000,000	300,000
Less Commission on sale of shares	---	(30,000)
Expenses of the issue	---	(38,093)
	<u>3,000,000</u>	<u>231,907</u>
Balance, December 31, 1997	<u>7,000,000</u>	<u>\$ 431,907</u>

- Preferred shares
- No preferred shares have been issued.

(c) Options To Acquire Common Shares

The company has granted to certain officers and directors options to acquire a total of 700,000 common shares of the company at a price of \$ 0.10 per share until March, 2002.

ILI TECHNOLOGIES GROUP INC.
(Formerly C.G.S. Technology Inc.)
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 1997

3. SHARE CAPITAL (Continued)

(c) Options To Acquire Common Shares (Continued)

The company has granted to McDermid St. Lawrence Securities Ltd. an option to acquire 300,000 common shares of the company at a price of \$ 0.10 per share until December, 1999.

(d) Escrowed Securities

Four million common shares of the company issued to promoters of the company in conjunction with the incorporation of the company have been placed into escrow and may be released only with the permission of the Alberta Security Commission. As noted in note 3 (f) below, subsequent to December 31, 1997 a further 1,954,904 common shares were placed in escrow.

(e) Subsequent Issuance Of Units of Common Shares And Warrants

As detailed more fully in Note 6, subsequent to December 31, 1997 the company proposed to issue on a private placement basis a maximum of 1,200,000 units, with each unit consisting of one common share and one share purchase warrant. The private placement would result in the issuance of a maximum of 2,400,000 common shares for maximum proceeds of \$ 720,000 if all units were sold and all warrants exercised.

Subsequent Issuance Of Securities On Completion Of Major Transaction

As detailed more fully in Note 6, subsequent to December 31, 1997 the company completed its Major Transaction, as that term is defined by the Alberta Securities Commission, and issued 6,000,000 common shares. Of the 6,000,000 common shares issued, a total of 1,954,904 shares have been placed in escrow and may be released only on the company achieving certain performance targets and with the permission of regulatory authorities.

4. INCOME TAXES

The company has available to it non-capital losses for income tax purposes of \$ 89,550. These losses may be utilized to reduce or eliminate taxable income in subsequent taxation years and expire as follows:

Fiscal 2003	\$ 91
Fiscal 2004	<u>89,459</u>
	<u>\$ 89,550</u>

ILI TECHNOLOGIES GROUP INC.
(Formerly C.G.S. Technology Inc.)
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 1997

5. RELATED PARTY TRANSACTIONS

In the year ended December 31, 1997 the company recorded as expenditures transactions with related parties, as follows:

• Management fees and office costs charged by promoters of the company	\$ <u>31,250</u>
• Premises rental and office and administrative services charged by ILI Technologies Corp.	\$ <u>30,600</u>
• Legal fees paid by ILI Technologies Corp. on behalf of the company in connection with the public issuance by the company of common shares	\$ 9,000
in connection with prepaid costs of major transaction	10,125
in connection with operational consulting fees	<u>3,375</u>
	\$ <u>22,500</u>

ILI Technologies Corp. and the company have certain common directors, officers and shareholders and, as detailed in Note 6, subsequent to December 31, 1997 the company acquired all shares of ILI Technologies Corp. At December 31, 1997 the company owed \$ 17,107 to related parties, which sum is composed of \$ 10,700 owing to a director and \$ 6,407 due to ILI Technologies Corp. These sums were paid subsequent to December 31, 1997.

6. SUBSEQUENT EVENTS

Change Of Corporate Name

Subsequent to December 31, 1997 the shareholders of the company approved the company's change of name from C.G.S. Technology Inc. to ILI Technologies Group Inc.

Subsequent Issuance Of Units Of Common Shares And Warrants

Subsequent to December 31, 1997 the company proposed to issue on a private placement basis securities of the company in the form of 1,200,000 units, with each unit composed of one common share and one share purchase warrant. The company priced the securities at a price of \$ 0.26 per unit and contemplates the conversion of each warrant into common shares of the company on a one for one basis at a price of \$ 0.34 for a period ending two years after the closing of the offering of the securities. If all units are sold and all warrants exercised, the company would realize maximum proceeds of \$ 720,000.

At date of preparation of these financial statements the company had not issued any of these securities.

ILI TECHNOLOGIES GROUP INC.
(Formerly C.G.S. Technology Inc.)
NOTES TO FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 1997

6. SUBSEQUENT EVENTS (Continued)

(c) Completion Of Major Transaction

Subsequent to December 31, 1997 the shareholders of the company and the Alberta Stock Exchange approved the acquisition by the company of ILI Technologies Corp. ("ILI Corp") for 6,000,000 common shares of the company. This transaction will be accounted for as a reverse takeover, with ILI Corp being the acquirer and the continuing entity for accounting purposes. This transaction constitutes the company's Major Transaction, as that term is defined by the Alberta Securities Commission.

The effective date of the Major Transaction is January 1, 1998; had the Major Transaction occurred at December 31, 1997 the consolidated balance sheet of the continuing entity would have been as follows:

ASSETS	
CURRENT ASSETS	
Cash	\$ 356,496
Accounts receivable	43,607
Income taxes recoverable	2,494
Inventory	64,445
Prepaid expenses	<u>1,708</u>
	468,750
CAPITAL ASSETS	96,725
CAPITALIZED SOFTWARE DEVELOPMENT COSTS	343,090
OTHER ASSETS	<u>2,426</u>
	<u>\$ 910,991</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 43,857
Advances from shareholders	15,000
Current portion of capital lease payable	<u>2,986</u>
	61,843
NON-CURRENT PORTION OF CAPITAL LEASE PAYABLE	<u>2,985</u>
	<u>64,828</u>
SHAREHOLDER'S EQUITY (DEFICIT)	
SHARE CAPITAL – 13,000,000 common shares	1,415,135
ACCUMULATED DEFICIT	<u>(568,972)</u>
	<u>846,163</u>
	<u>\$ 910,991</u>

Corporate Information

DIRECTORS

Guy Farebrother

Thomas E. Milley⁽¹⁾

Donald Thompson⁽¹⁾

Casey Chan

Jody Yee⁽¹⁾

Rodney Smith

⁽¹⁾ Members of the Audit Committee

OFFICERS AND KEY PERSONNEL

Iqbal Ali President

Jody Yee Chief Financial Officer

Rodney Smith Secretary

TRANSFER AGENT AND REGISTRAR

CIBC-Mellon Trust Company
#600, The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Y3

BANKERS

Canadian Imperial Bank of Commerce
Calgary, Alberta

AUDITORS

Schultz, Leong, Chartered Accountants
Calgary, Alberta

LEGAL COUNSEL

Demianschuk Milley & Burke
Calgary, Alberta

STOCK EXCHANGE

The Alberta Stock Exchange
[Trading Symbol "ILX"]

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